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SUBJECT: New RMB Trade Settlement Prospect Pushes Hang Seng Up

¶1. Summary: The April 8 announcement by the Chinese State Council that Renminbi (RMB) will be approved for use in trade settlement in selected cities has pushed the Hong Kong stock market up almost eight percent, with financial stocks leading the surge. Although details of the scheme have yet to be revealed, local officials say Hong Kong is ready and predict RMB bank balances will begin to increase again after falling for several months. End Summary.

Hong Kong Investors Optimistic About RMB Settlement

¶2. Since the Chinese State Council announced April 8 that it would approve the use of RMB as a settlement currency for cross-border trade in Shanghai and four Guangdong cities (Guangzhou, Shenzhen, Dongguan and Zhuhai) the Hong Kong stock market has climbed 7.8 percent. Pro-Beijing Ta Kung Pao quoted China Banking Regulatory Commission (CBRC) Vice Chairman Cai Esheng as saying details of the pilot scheme might be released jointly by PBOC and CBRC as early as next week. Share prices of Hong Kong Shanghai Bank Corp. (HSBC) and Bank of China Hong Kong (BOC HK), two Hong Kong banks likely to benefit from the pilot project, have risen 14 percent and 15.5 percent respectively. Bank of China announced plans to increase its stake in BOC HK to 75 percent from its current 66 percent stake.

¶3. Premier Wen Jiabao confirmed to Hong Kong reporters in Hainan April 11 that the RMB trade settlement scheme will also apply to Hong Kong and Macau. Premier Wen reminded reporters that the RMB trade settlement scheme is only a pilot project and that it would require a "relatively long process" for the Chinese currency to achieve full capital account convertibility. Wen told the press that some problems still had to be resolved before the pilot project could be unveiled. Hong Kong reporters speculated that adjustments to export tax rebates might be slowing implementation of the scheme.

Hong Kong Ready, Come Join Us!

¶4. Undersecretary for Financial Services and the Treasury Julia Leung, in a radio interview April 11, said 400 enterprises have already been selected to join the scheme: 100 from Shanghai and 300 from Guangdong. These approved companies will be able to settle their trades with Hong Kong enterprises in RMB. Leung noted that foreign companies hoping to participate in the scheme could set up an office in Hong Kong and open an RMB bank account. Under the provisions of the Closer Economic Partnership Arrangement (CEPA), Hong Kong registered companies could all benefit. Leung said Hong Kong is ready to take advantage of the new facility. The Hong Kong Monetary Authority has already been conducting tests of the RMB clearing system and it will be ready to start operation when the Mainland authorities announce the operational details.

Boost For RMB Deposits

¶5. The Hong Kong Economic Times reported Goldman Sachs is predicting that RMB deposits in Hong Kong will increase sharply following implementation of the RMB trade settlement scheme. By the end of February 2009, RMB deposits in Hong Kong stood at 54 billion RMB.

The Numbers

¶6. HIBOR quoted by Hang Seng Bank today at 16:54 pm stood at 0.08 percent for overnight, 0.12 percent for 1-week, 0.20 percent for 2-week, 0.27 percent for 1-month, 0.89 percent for 3-month and 1.16 percent for 6-month borrowings. The Hang Seng closed April 17 at 15601.27, up 4.5 percent or 699 points for the week.
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